

No. 11286

IN THE

United States Circuit Court of Appeals

FOR THE NINTH CIRCUIT

UNIVERSAL PICTURES COMPANY, INC., a Delaware Corporation, and CLYDE BRUCKMAN,

Appellants,

vs.

HAROLD LLOYD CORPORATION, a California corporation,

Appellee.

HAROLD LLOYD CORPORATION, a California corporation,

Appellant,

vs.

UNIVERSAL PICTURES COMPANY, INC., a Delaware Corporation, and CLYDE BRUCKMAN,

Appellees.

REPLY BRIEF FOR CROSS-APPELLANT
HAROLD LLOYD CORPORATION.

FILED

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REPLY BRIEF FOR CROSS-APPELLANT HAROLD LLOYD CORPORATION.

Preliminary Comment on Defendants' Reply Briefs and Their Inconsistent Position on the Cross-Appeal.

Defendants Universal and Bruckman do not agree with each other upon the scope or effect of the evidence or findings made by the trial court. Universal argues that "the

record is devoid of any factual evidence to support the court's award of actual damages in the sum of \$40,000." (Universal's Reply Br. p. 8.) Bruckman, on the other hand, takes the position that the findings of the trial court are based "upon conflicting evidence" (Bruckman's Reply Br. p. 2) and that "the rule is well settled that an Appellate Court will not disturb the findings of the trial court where the findings are based upon conflicting evidence." (Bruckman Reply Br. p. 6.)

In fact, appellant Bruckman concludes his argument that "the credibility of the witnesses and the weight of the testimony were for the trial court" (Bruckman Reply Br. p. 4) by flatly stating:

"Obviously the findings of the trial court cannot be overthrown." (Bruckman Reply Br. p. 8.)

Universal has once again completely misstated the evidence in its reply brief upon our cross-appeal. We do not feel a discussion of facts has any place in a closing brief, and for that reason alone, we merely mention that Universal has made *six misstatements* of the evidence on pages 2 and 3, and *sixteen misstatements* on pages 17, 18 and 19. Since these are for the most part mere repetition of misstatements made in their opening brief and fully replied to in our brief for appellee (particularly the Appendix thereto), we are satisfied to stand upon the record without further comment.

In order to avoid any confusion engendered by erroneous statements as to our contentions, however, we desire to restate the issues upon the cross-appeal as follows:

Restatement of Issues on Cross-Appeal.

1. Is the judgment for actual damages inadequate?
2. Is the plaintiff entitled to profits “as well as” damages; and if so, does the *Sheldon* case require an arbitrary allocation of twenty per cent (20%) of the profits in the absence of evidence supporting such proportionment?
3. Does the Court have discretion to award statutory damages in lieu of actual damages and profits, where it is difficult to ascertain the exact amounts of damages “as well as” profits which have resulted from the infringements or where for any other reason, justice requires an award of statutory damages in order to reasonably compensate the victim of deliberate infringements?

POINT I.

The Award of Damages Is Inadequate and Should Be Increased to an Amount at Least Equal to the Price Defendants Would Have Been Required to Pay Plaintiff Had They Purchased Instead of Stolen Plaintiff’s Copyrighted Material.

Both Bruckman and Universal virtually *concede* that plaintiff’s evidence of damage, and particularly plaintiff’s expert evidence of special damage, would have supported a judgment of \$300,000. Lloyd’s testimony was that the diminished value of his property following defendants’ infringements was \$300,000: \$100,000 for decreased value of reissue rights plus \$200,000 for decreased value of remake rights. [Tr. pp. 104, 105.] Landau’s testimony was in accord. [Tr. pp. 256-258.] Botsford estimated Lloyd’s damages at \$225,000 to \$250,000 as follows: damage to reissue rights \$100,000 plus damage to remake rights

“from \$125,000 to \$150,000.” [Tr. p. 462.] Bentel’s evidence showed damages to Lloyd of \$360,000, being a loss of 90% of the value of reissue rights worth \$150,000 and remake rights worth \$250,000. [Tr. p. 203.]

Notwithstanding this testimony (which was uncontradicted as to the value of remake rights destroyed), the trial judge discounted and minimized plaintiff’s evidence of damages and all other evidence relating to production and distribution costs and profits in the motion picture industry, and in so doing, refused to follow well accepted legal principles: (1) that all doubts must be resolved *against* a deliberate infringer; and (2) that the court must make an award “which by no possibility shall be too small.” (*Sheldon v. Metro Goldwyn Pictures Corp., et al.*, 106 F. (2d) 45 at p. 51, affirmed 309 U. S. 390, 60 Sup. Ct. Rep. 681, 84 L. Ed. 825.)

It is extremely significant that in the *Sheldon* case the U. S. Supreme Court upheld the Second Circuit Court of Appeals in making an award which was *four times as large* in amount as the plaintiffs had agreed to accept for the motion picture rights misappropriated, and the award of profits was 100% to 400% larger than the *highest* amount testified by the experts.

In the case at bar the trial court refused to apply the tests laid down in the *Sheldon* case:

1. The judgment for \$40,000 is *less than one-fifth of the minimum value* of the remake rights of plaintiff’s motion picture: Lloyd and all of plaintiff’s expert witnesses evaluated these rights at \$200,000 which would have been the lowest possible purchase price if Universal had attempted to purchase these rights and Lloyd had consented to sell them.

2. Considering the figures testified to by the experts as “fanciful” and “fantastic” the trial court made no

attempt to give the expert evidence and the plaintiff “the benefit of every doubt” and a judgment which “by no possibility shall be too small” and awarded a fraction of the actual amount of plaintiff’s damages—although the court in the *Sheldon* case held the award might be two to four times *greater* than the expert evidence and even in such event held that a deliberate infringer “cannot complain.” (309 U. S. at p. 408.)

Although the evidence unquestionably sustains the findings to the extent of \$40,000 as *conceded* by appellant Bruckman (Reply Br. pp. 2, 4, 6, 8) such evidence also sustains and compels an award of at least \$200,000 or more and under the principles enunciated in the *Sheldon* case this Court should increase the award to an amount commensurate with plaintiff’s injury.

In *Horvath v. McCord Radiator & Mfg. Co.*, 100 F. (2d) 326 (certiorari denied 308 U. S. 581, 60 Sup. Ct. 101, 84 L. Ed. 486), the Sixth Circuit Court of Appeals *increased* the judgment of the trial court from \$80,334.76 to \$120,502.11, stating at page 335:

“McCord is an infringer and the burden must be placed upon it as the wrongdoer and it is the duty of the court to find for Horvath with reasonable approximation that to which he is entitled, and in so doing, there is no duty to exercise meticulous care to avoid a hardship on McCord. *Sinclair Refining Company v. Jenkins Petroleum Process Company*, 289 U. S. 689, 700, 53 S. Ct. 736, 77 L. Ed. 1449, 88 A. L. R. 496.”

See, also:

K. W. Ignition Co. v. Tempco Elec. Motor Co., 283 Fed. 873 (6th C. C. A.), where damages of \$50,000 awarded by the District Court were *doubled* by the Circuit Court of Appeals.

POINT II.

Where Both Damages and Profits Result From Wilful Infringement the Copyright Proprietor May Recover Profits "as Well as" Damages.

Appellant Universal is completely in error in contending that "if damages are proven and the profits ascertained the statute does not permit recovery of both but gives the plaintiff his choice" (Universal's Reply Br. p. 13).

The phraseology used by the statute is that the infringer is required "to pay to the copyright proprietor such damages as the copyright proprietor may have suffered due to the infringement *as well as* all the profits which the infringer shall have made from such infringement" (Copyright Act, Section 25b).

Certainly there is nothing in the language of the Copyright Act to justify appellant's construction that plaintiff may recover *either* damages *or* profits but that "the statute does not permit recovery of both."

It is our contention that the only "rule of law" is one which is flexible enough to permit a fair and just award in any conceivable situation. We believe the statute vests such discretion in the court. (See Point IV, *post*, p. 12, with authorities there cited.) If the profits are large and the damages are small or unproven as in the *Sheldon* case, perhaps an award of profits alone is just and adequate compensation. If the provable damages are large and the provable profits are small, perhaps the damages alone constitute a fair, just and adequate award. But circumstances may arise where it requires an award of both damages and profits to adequately compensate the proprietor of a copyright infringed.

We submit the instant case of deliberate and wilful infringement is a proper case to allow profits in addition to the damages and after most careful research we can find no copyright cases where both damages and profits have been pleaded and proven and the court has declined to award profits in addition to damages. On the contrary, all of the copyright authorities heretofore cited by us expressly hold that the plaintiff is entitled to recover profits "in addition to" damages. (18 *Corpus Juris*, Sec. 248, *Amdur Copyright Law & Practice*, p. 1117, para. No. 6 "*Profits in addition to Damages*"; *Atlantic Monthly Co. v. Post Pub. Co.*, 27 F. (2d) 556; *Siebring Pottery v. Steubenville Pottery*, 9 Fed. Supp. 384; *Goldmark v. Kreling*, 25 Fed. 349, 356.)

Appellant Bruckman's reply to these cases is that they "all antedate" the decision in *Sheldon v. Metro-Goldwyn Corporation*, 84 L. Ed. 825. (Reply Br. p. 11.) But *since* the decision in the *Sheldon* case—which did not involve both damages and profits but which related solely to whether or not there should be an apportionment of profits—the Second Circuit Court of Appeals *affirmed* the District Court decision in *Detective Comics Inc. v. Bruns Publications Inc.* (D. C. S. D., N. Y.), 28 F. Supp. 399, 41 U. S. P. Q. 182, awarding plaintiff *both* damages and profits; the court fixing damages in the sum of \$1,000 and appointing a master to report on profits for which the defendants were required to account. The Second Circuit Court of Appeals' decision is reported in 111 F. (2d) 432, 45 U. S. P. Q. 291, and was decided April 29, 1940 by a unanimous court one month after the decision of the U. S. Supreme Court in the *Sheldon* case (March

25, 1940), which affirmed the decision of the Second Circuit Court of Appeals reported in 106 F. (2d) 45, 42 U. S. P. Q. 540.

Appellants are in no position to contend that the Second Court of Appeals in upholding a judgment for *both* damages and profits in the *Detective Comics* case, *supra*, was not fully cognizant of the content, scope and effect of the *Sheldon* opinion handed down a month earlier by the Supreme Court.

POINT III.

The Sheldon Case Affirms the Rule of Law That All Profits Derived From Deliberate Infringement Must Be Awarded to the Copyright Proprietor in the Absence of Substantial Evidence Supporting a Just Apportionment.

We contended in our Cross-Appellant's Opening Brief (Point II, pp. 32-36) that there was "no evidence to sustain the arbitrary allocation by the trial court of 20% of defendant's profits to their copyright infringement." Appellant Universal argues (Reply Br. p. 15) that such 20% apportionment is "the rule of law" established in *Sheldon v. Metro-Goldwyn Corporation*, 309 U. S. 390, 408. Appellant Bruckman echoes this contention. (Bruckman's Reply Br. p. 10.)

Both appellants *ignore* the fact that there was abundant uncontradicted expert evidence to sustain allocation of profits in the *Sheldon* case wherein the United States Supreme Court expressly stated "the evidence is sufficient to provide a fair basis of division." (309 U. S. 390, at p. 402.)

The *Sheldon* case did *not* provide "a rule of law" that *in the absence of any evidence* an arbitrary allocation of 20% of the profits was proper. In fact the Supreme

Court commented upon the "elaboration of detail" with which "petitioner's expert witnesses gave their views as to the extent to which the use of the copyrighted material had contributed to the profits in question," all witnesses being "in complete agreement that the portion of profits attributable to the use of the copyrighted play . . . was very small." (309 U. S. 390 at pp. 407, 408.) *It was this uncontradicted expert evidence upon which both the Second Circuit Court of Appeals and the U. S. Supreme Court based their respective decisions.* Previous decisions of the U. S. Supreme Court awarding *all* profits in the absence of evidence of proper apportionment, were re-affirmed. (See 309 U. S. at p. 401 citing *Callaghan v. Myers*, 125 U. S. 617, 9 S. Ct. 177, 32 L. Ed. 547, and *Belford Clarke Co. v. Scribner*, 144 U. S. 488, 12 S. Ct. 734, 740, 36 L. Ed. 514.)

Appellant Universal states that this Court in *Stonesifer v. 20th Century Fox Film Corp.*, 140 F. (2d) 579, "recognized the determination of the *Sheldon* case as a *rule of law* in making an apportionment of 20% without any supporting evidence." In the *Stonesifer* case, however, neither party to the appeal raised any question as to the necessity of evidence, expert or otherwise, to support the apportionment and the record shows this question was never even raised in or considered by the trial court. Since the issue was not raised either in the trial court or upon appeal, we do not consider the case a precedent: nor could it be wisely followed. "Circumstances alter cases" and since the only authority for the apportionment in the *Stonesifer* case was the *Sheldon* case (in which there was abundant evidence to support the apportionment), appellants cannot claim more for the *Stonesifer* case than the authority upon which it in turned rested.

Furthermore, it would be as dangerous and illogical to say that the *Sheldon* case established a rule of law re-

quiring an apportionment of 20% of the profits in every case (regardless of evidence) as to say that the *Sheldon* case required a flat award of \$117,000 in every case (regardless of the evidence) or to say that the proprietor of a copyright infringed would in all cases be entitled to receive four times the amount at which he had agreed to sell the copyrighted property:*

In *Davilla v. Brunswick-Balke-Collender Co.*, 94 F. (2d) 567, cited by defendant Universal (Reply Br. p. 12), the Second Circuit Court of Appeals decided that a plaintiff was entitled to 100% of the profits realized from the sale of a double phonograph disc, upon only one side of which appeared the infringing musical composition which had first been published eight years previously and which had apparently fully run its course. Despite the fact that the other side of the disc contained a current song which was undoubtedly responsible for most of the sales of the double record, the Second Circuit Court of Appeals allowed the plaintiff 100% of the profits made from the sale of the entire record. This judgment is equivalent to 200% or 300% of the profits possibly attributable to the infringement. Yet, the U. S. Supreme Court denied certiorari 304 U. S. 572, 58 Sup. Ct. 1040, 82 L. Ed. 1536.

In the instant case there was no evidence to sustain an apportionment of profits—on the contrary, the uncontradicted evidence was that the profits could *not* be apportioned. [Botsford, Tr. pp. 477-478; Geller, Tr. p. 271.]

We therefore submit neither the *Sheldon* nor the *Stone-sifer* cases are in point and plaintiff was entitled to an

*In the *Sheldon* case the plaintiffs testified they had agreed to sell the motion picture rights of their play "Dishonored Lady" for \$30,000 but the court awarded \$117,000. (309 U. S. 390, at 397.)

award of 100% of the profits. (See Cross-Appellants' Opening Brief, Point II, pp. 32-42.)*

Appellants cannot now contend they were robbed of the opportunity to offer evidence upon the very point upon which evidence was invited by the trial court and declined by them.

POINT IV.

The Court Is Not Precluded From Exercising Its Discretion to Award Statutory Damages Where Either Provable Damages Alone or Provable Profits Alone or Provable Damages Plus Profits Do Not Constitute a Fair and Just Award Under All the Circumstances of the Particular Case.

In *Fargo Mercantile v. Brechet*, 295 Fed. 823, the Eighth Circuit Court of Appeals stated what we believe to be the true rule, as follows (at p. 829):

"We think election to award what are known as statutory damages in lieu of actual damages vests with the Court and that it is for the Court to decide what kind of damages best fits the case. Exercising the authority given by the Statute the Court awarded Statutory damages. The practice is well established." (Citing *Waterman v. Dispatch Co.*, 249 U. S. 100.)

The Ninth Circuit Court of Appeals stated in *Turner & Dahnken v. Croxley*, 252 Fed. 749 at 754:

"The duty of the court was to award damages as justified by the nature and circumstances of the case as developed upon the trial."

*Both appellants now for the first time in this court ask for the opportunity of offering proof before a Master to support an apportionment (Universal's Reply Br. p. 17; Bruckman's Reply Br. p. 10). Both appellants were given full opportunity to offer such proof in the trial court: "You gentlemen are privileged to introduce all the expert testimony you desire" [Tr. p. 472]; "The Court: If there is any question about it, I will listen to any testimony you care to offer." [Tr. p. 474.]

The U. S. Supreme Court has repeatedly justified an award of statutory damages where actual damages or profits are difficult or uncertain of proof (*Douglas v. Cunningham*, 294 U. S. 209; *Westerman Co. v. Dispatch Printing Co.*, 49 U. S. 100.)

In the *Douglas* case the court expressly stated that "an award of statutory damages in the contemplation of the statute is just" (294 U. S. 209) and "shall not be regarded as a penalty." (*Brady v. Daley*, 175 U. S. 148.)

Only two cases are cited by appellants in opposition to the rule that discretion vested in the court as stated by this court in *Dahnken v. Crowley*, 252 Fed. 749.

Those two cases are *Davilla v. Brunswick-Balke-Colander*, 94 F. (2d) 567 and *Sheldon v. Metro-Goldwyn Pictures Corp.*, 309 U. S. 390.

In the *Davilla* case *supra*, the court held that an award of 100% of the profits was adequate compensation where only one side of a double phonograph record constituted infringement and it was doubtful whether the copyrighted number which had run its course, had been responsible for the sale of the record.

In the *Sheldon* case *supra*, the court obviously felt that an award of \$117,000 to plaintiffs who had been willing to accept \$30,000 for the motion picture rights to their property, was adequate compensation.

In *neither* case were damages pleaded or proven and in *neither* case could the plaintiff be injured by an award which was in fact many times larger than any possible damages actually sustained. We concede that the Supreme Court in the *Sheldon* case did state that the "in lieu" clause was inapplicable "as the profits have been proved and the only question is as to their apportionment" (309 U. S. 390) but we earnestly submit that *neither party* contended that statutory damages should be substituted in lieu of

profits because one party argued that plaintiff was entitled to 100% of the profits without apportionment and the other party argued that the profits should be apportioned.

If the provable profits had aggregated only \$1,000 instead of \$560,000 and plaintiffs had asked for an award of statutory damages in lieu of actual damages and profits, the question might be said to have been fairly before the Supreme Court for decision. We cannot conceive that the Supreme Court would preclude itself or any other court from awarding statutory damages if under the nature and circumstances of the case such course should be necessary to achieve a just result.

In this connection it is significant that appellants have utterly failed to comment upon the case of *Burndy Engineering Co. Inc. v. Sheldon Service Corp.*, 127 F. (2d) 661, 53 U. S. P. Q. 409, which was referred to in our cross-appellant's opening brief (p. 43). In that case—which was decided April 29, 1942—more than two years after the U. S. Supreme Court decision in *Sheldon v. Metro-Goldwyn Corp.*, *supra*—the Second Circuit Court of Appeals expressly held that it was a proper exercise of discretion to award \$3,500 statutory damages in lieu of \$1,194.60 profits found by the Special Master appointed by the trial court. The opinion of the trial court is reported in 39 F. Supp. 274, 50 U. S. P. Q. 24, where the District Court stated:

“As pointed out in *Westermann Co. v. Dispatch Printing Co.*, 249 U. S. 100, the court may in the exercise of its sound discretion allow statutory damages pursuant to Section 25 of the Copyright Act where actual damages cannot be proved in terms of dollars and cents. These principles were also discussed at length in *Sebring Pottery Co. v. Steubenville Pottery Co.*, 9 F. Supp. 384. The apparent reason for the statutory provision was to care for the situation where actual proof of profits or damages

was difficult. (Cf. *Douglas v. Cunningham*, 294 U. S. 207 (24 U. S. P. Q. 153).)”

The Circuit Court of Appeals affirmed the judgment of the trial court upon the following grounds:

“ . . . An award of statutory damages was the proper course to adopt where the accurate proof of profits or damages was impossible. The use of the infringing catalogs built up defendant’s good will and imperiled plaintiffs to an incommensurable extent not reflected in current profits.” (127 F. (2d) 661.)

It should be noted that in the *Burndy* case the special master specifically found the amount of profits derived from certain sales to customers who ordered directly from the infringing catalog. The special master also found specific profits derived from the sale of goods described in the infringing catalog but ordered by customers without specific reference to the catalogs. If the contention of appellants is correct that proof positive of profits *precludes* a court from awarding statutory damages neither the trial nor Appellate Court would have been able to exercise any discretion as to whether profits or statutory damages constituted the appropriate remedy.

The Second Circuit Court of Appeals, however, did not hesitate to sustain the award of statutory damages upon the same underlying theory expressed by this court in *Turner & Dahnken v. Crowley*, 252 Fed. 749; by the Fourth Circuit Court of Appeals in *No-Leak-O-Piston Ring Co. v. Norris*, 277 Fed. 951; by the Eighth Circuit Court of Appeals in *Fargo Merc. Co. v. Brechet*, 295 Fed. 823, 829; and by the U. S. Supreme Court in *Westermann Co. v. Dispatch Printing Co.*, 249 U. S. 100, 39 S. Ct. 194, 63 L. Ed. 499, and *Douglas v. Cunningham*, 294 U. S. 207, 55 S. Ct. 365, 79 L. Ed. 862.

POINT V.

Appellant Universal Errs in Contending That the “Reasonable Royalty” Rule in Patent Cases “Is Only Applicable When Neither Damages Nor Profits Can Be Calculated With Reasonable Certainty.”
(Universal’s Reply Br. p. 10.)

Appellant Universal cites *Widenski v. Shapiro, Bernstein & Co.*, 147 F. (2d) 909 (First C. C. A.), as holding that the statutory damages of the Copyright Act are “a *substitute* for the established or reasonable royalty rule applied in patent cases.” (Universal’s Reply Brief, p. 9, Appendix, p. iii.) It is evident from the next sentence following the portion quoted by Universal that the court did not consider statutory damages as the *equivalent* of the reasonable royalty rule nor did it consider all patent rules and remedies applicable to copyright causes, for the court states at page 911:

“It seems to us highly significant that we have been referred to and have found no cases applying the patent rule contended for by the defendant in a copyright case.” (147 F. (2d) 909 at 911.)

There is a fundamental difference between royalties based upon a stated royalty for each article manufactured and a copyrighted motion picture of which no more than 200 or 300 positive prints are manufactured but never sold. The motion picture producer licenses a temporary use of a positive print by an exhibitor who never acquires any ownership of the print but must return it to a film distributing exchange which re-licenses the same print to subsequent exhibitors until the entire field is exhausted. No reasonable royalty can be predicated upon the number of positive prints manufactured. The “substitute” of the Copyright Act is a statutory schedule of \$100 for the first infringing performance and \$50 for each subsequent in-

fringing performance. The necessity for some such statutory schedule is evident when it is realized that an infringer who pirates a dramatic or literary work may produce it so badly that he may derive small profits or none at all but even the poorest reproduction of a copyrighted work will deprive the copyright proprietor of much of the value of his property and will preclude him from himself presenting the same work to the public.

Even assuming that statutory damages in copyright cases are completely analogous, however, defendant Universal is in error in contending that the "reasonable royalty" rule utilized in patent litigation is *only* applicable "when neither damages nor profits can be calculated with reasonable certainty." (Universal Reply Br. p. 10.) None of the cases cited by Universal with the possible exception of *Krentler-Arnold Hinge Last Co. v. Leman*, 24 F. (2d) 423 (a trial court decision), support its position, and the Kentler case has been subsequently disapproved as we shall hereafter show. All of defendants' cases involved factual situations where *neither* damages *nor* profits were proved, and the language used by the courts must be construed in the light of the peculiar facts involved.

Wherever the express problem involved in the instant litigation was presented to a court the decision was contrary to Universal's contention. In *Mathey v. United Shoe Machinery Corp.*, 54 F. Supp. 694, the specific point before the court was whether it was proper to apply the reasonable royalty rule where it was clearly proved that the *defendant's profits from the infringement amounted to \$15,525.98*. It was contended that profits being clearly shown, plaintiff could not recover except under such a basis and was not entitled to damages based on reasonable royalty. The court held to the contrary and awarded plaintiff *damages in excess of \$70,000 and increased the award 50% for wilful infringement*, stating at page 697 [see Appendix i].

In *Austin & Western Railroad Machinery Co. v. Disc Grader & Plow Co.*, 291 Fed. 301, the same point was raised and decided adversely to defendant Universal's contention, the court saying:

"The contention that 'the judgment should be reversed, because it exceeds the actual total profit made by defendant' is clearly without merit. A reasonable royalty is a measure of damages and is *recoverable without respect to profits*. (Citations.)"

In *Goodyear Tire Co. v. Overland Cushion Tire Co.*, 95 F. (2d) 978 (cert. dis. 306 U. S. 665), cited by Universal (Rep. Br. p. 5) the Court gave plaintiff the *alternative* of recovering either the defendant's profits from the infringement *or* damages based on a reasonable royalty and pointed out that in other litigation between the same parties damages based on a reasonable royalty were found to be \$549,-410, which amount was *doubled* by the Court. In commenting on this the Court said:

"Plaintiff elected to take the double damage awarded *in lieu of* the subsidiary's profits which amounted to \$187,113.69" (at p. 983).

In *K. W. Ignition Co. v. Tempco Elec. Motor Co.* (6th C. C. A.), 283 Fed. 873, the defendant's profits were shown to be \$164,431.54. These profits were awarded to the plaintiff, and the trial court added \$50,000 to the award. The Circuit Court of Appeals for the Sixth Circuit upon a cross-appeal awarded the plaintiff damages on the basis of a reasonable royalty of \$2.00 for each infringing sale and *increased the added award from \$50,000 to \$100,000*.

In *American Tel. & Tel. Co. v. Radio Audion Co.*, 5 F. (2d) 538, the court awarded plaintiff damages based on a reasonable royalty, *although defendant's lesser profits from the infringement were shown*.

In *Lee v. Malleable Iron Co.*, 247 Fed. 795 (modified on interest point, 263 Fed. 896; cert. denied 251 U. S. 562), the defendant was clearly shown to have made some \$47,000 in profits from the infringement. The court awarded damages on a reasonable royalty basis of \$78,-816.67, \$12,282.26 interest, and \$15,763.33 by way of a 20% increase or a total of \$106,862.26. In answering the same contention made by defendants herein, the court said [see Appendix p. ii].

See also:

Dental Vulcanite Co. v. Van Antwerp, Fed. Cas. No. 5600;

Consolidated Rubber Tire Co. v. Diamond Rubber Co., 226 Fed. 455 (aff'd 232 F. 475).

Defendant Universal's attempt to limit the plaintiff's recovery for *damages* because of the fact that it made small profits only, cannot be justified. Its argument in effect disregards the fact that reasonable royalties (in patent litigation) and statutory damages (in copyright litigation) are utilized in determining the extent of a plaintiff's damage only, and the amount, if any, of defendant's profits have no bearing whatsoever upon the right of a plaintiff to recover in an action at law for damages. (See *Walker on Patents* (Deller's Ed. 1937), p. 2152 *et seq.*, where the distinction between an action at law for damages and an action in equity to recover profits is clearly pointed out.)

In *Birdell v. Denig*, 95 U. S. 716 at p. 720, the court said:

"Profits are not the primary or true criterion of damages for infringement in an action at law."

Sammons v. Colonial Press, 126 F. (2d) 341 at p. 345:

“The profits which were made by the infringer may bear no relation to the damages suffered by the copyright proprietor.”

Even the reasonable royalty rule in patent cases is a measure of damages and has no application in an action at equity to recover the infringer's profits (*Walker on Patents* (Deller's Ed. 1937), pp. 2170 *et seq.*).

Defendant Universal's contention (Rep. Br. p. 17), that the plaintiff's recovery “should be nominal” is absurd.*

Conclusion.

This is the first copyright infringement action to reach an Appellate Court where the plaintiff's copyrighted motion picture was proven to have an intrinsic value of several hundred thousand dollars. In the *Sheldon* case the Second Circuit Court of Appeals and the U. S. Supreme Court did not hesitate to award \$117,000 to the authors of a copyrighted play, who valued their motion picture rights at \$30,000. If the same test of four times the value be made the basis of an award here, plaintiff here would be en-

*In *Enterprise Mfg. Co. v. Shakespeare Co.*, 141 F. (2d) 916, the same contention in a patent action was made and the court said:

“The argument of appellee that the improvement disclosed in the patent under consideration was without value or of only nominal value, was rightly rejected. The appellee, by infringing use, has paid tribute to the utility of the device infringed. As was said by Judge Hickenlooper for this court, in *Seymour v. Ford Motor Co.* (6th Cir.), 44 F. (2d) 306, 308:

“The patent is itself evidence of such utility, and the use of the patented device by the defendant has been recognized as an admission of this fact, and as creating an estoppel upon the defendant to deny such utility. (Citing numerous cases.)”

titled to receive approximately one million dollars. An award of \$40,000 is completely inadequate and out of line with the values placed by the motion picture industry upon its own properties and such a judgment merely amounts to an invitation to plagiarize a copyrighted motion picture upon the theory that it is cheaper to steal the property than to purchase it.

If the intent and purpose of the Copyright Act is to be realized, then deliberate infringers should be advised by the judgment of this Court that unauthorized use of copyrighted material must be paid for at least to the same extent as if purchased from and used with the consent of the copyright proprietor. Any other decision simply condones deliberate piracy and encourages any motion picture producer to steal anything he wants in the hope that he can escape at least a portion of the payment which would otherwise be required by the copyright proprietor.

We submit this Court should finally determine the controversy between the parties by doing one of the following things:

1. Increase the award of actual damages to \$250,000 and/or award all of the profits to the plaintiff, or
2. "In lieu of" actual damages and profits, award the plaintiff statutory damages upon the basis of 30,000 infringing performances by defendants in 6636 theaters throughout the country.

Respectfully submitted,

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Attorney for Cross-Appellant Harold Lloyd Corporation.



APPENDIX.

(P. 16.) *Mathey v. United Shoe Machinery Corp.*, 54 Fed. Supp. 694 at page 697 :

“Objections 8, 9, 10, 15, 24, and 34 are directed to the proposition that ‘in so far as the master’s award is based upon “reasonable royalty”, it is erroneous because (a) an award based on any theory of “reasonable royalty” is not allowable when, as here, defendant’s profits are ascertainable; and (b) because the rate of the master’s award is unreasonable’.

“To support its contention that the maximum recovery to which the plaintiff is entitled in this equity proceeding is the defendant’s profits as stated in its account, the defendant relies upon the case of *Krentler-Arnold Hinge Last Co. v. Leman*, D. C. Mass., 24 F. 2d 423. The court in the *Krentler* case stated, page 425 of 24 F. 2d:

“‘By the terms of the statute general damages can be awarded only when neither profits nor damages can be proved’. I find myself in disagreement with this statement of the law if it means that if the defendant can prove his profits as was done in the *Krentler* case, the plaintiff must accept them as the measure of his damages.

* * * * *

“Further, in accordance with the terms of the statute, 35 U. S. C. A. Sec. 70, if it appears that *either* the actual damages of the patentee—such as profits on lost sales or reduced profits—*or* the profits of the infringer are not susceptible of calculation with reasonable certainty, the court upon the evidence may award a reasonable sum as

general damages which may be determined by opinion evidence or fixed by way of a reasonable royalty when there is no established royalty. It follows from what has been said that if the patentee elects to pursue damages and not profits, and damages are not susceptible of calculation with reasonable certainty, the plaintiff may be awarded general damages or reasonable royalty, whether or not the defendant's profits are ascertainable. In the case of *Goodyear Tire & Rubber Co. v. Overman Cushion Tire Co.*, *supra*, 95 F. 2d at page 983, the plaintiff was allowed to elect whether he would recover upon the basis of reasonable royalty where the actual damages could not be proved *or* take the infringer's profits which were definitely ascertained by the master. Cf. *Overman Cushion Tire Co. v. Goodyear Tire & Rubber Co.*, 2 Cir. 66 F. 2d 361, where it seemed the profits were ascertained and the exact amount of damages could not be proved (66 F. 2d at page 361), the plaintiff was allowed reasonable royalty.

"If the principle of law the defendant contends for was correct, i. e., that the maximum recovery to which the plaintiff is entitled, is the defendant's profits on the infringing business, it would lead to very harsh results. If an infringer could limit his liability by keeping his profits at an inconsequential figure by low competitive rates and at the same time keep an accurate account of his low profits, small competitors would be at his mercy where a patent was only of temporary substantial value. This contention of the defendant is without merit."

(P. 18.) *Lee v. Malleable Iron Co.*, 247 Fed. 795:

“Wherefore the fact that defendant is shown to have made \$47,000 ‘profits’, apportioned as ‘legally attributable’ to the embodiment of the invention in the combination structures made by it, cannot limit the proofs in their legitimate tendency—as it may develop—to either a larger or smaller amount as reasonable royalty damage. True, profits actually made may be considered; but that their amount must be taken as the test of reasonableness, or that profitless infringing must negative damage by defeating the exaction of a reasonable royalty by a patentee, is no more possible in measuring damages in respect of infringement, than would be the attempt of a lessee at will or sufferance to limit or defeat reasonable recovery by proving his occupation of the tenement to have resulted in little or no profit to him.” (247 Fed. at 806.)

